

Economic and Revenue Outlook

Presented to
Financial Management Advisory Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary – November Forecast

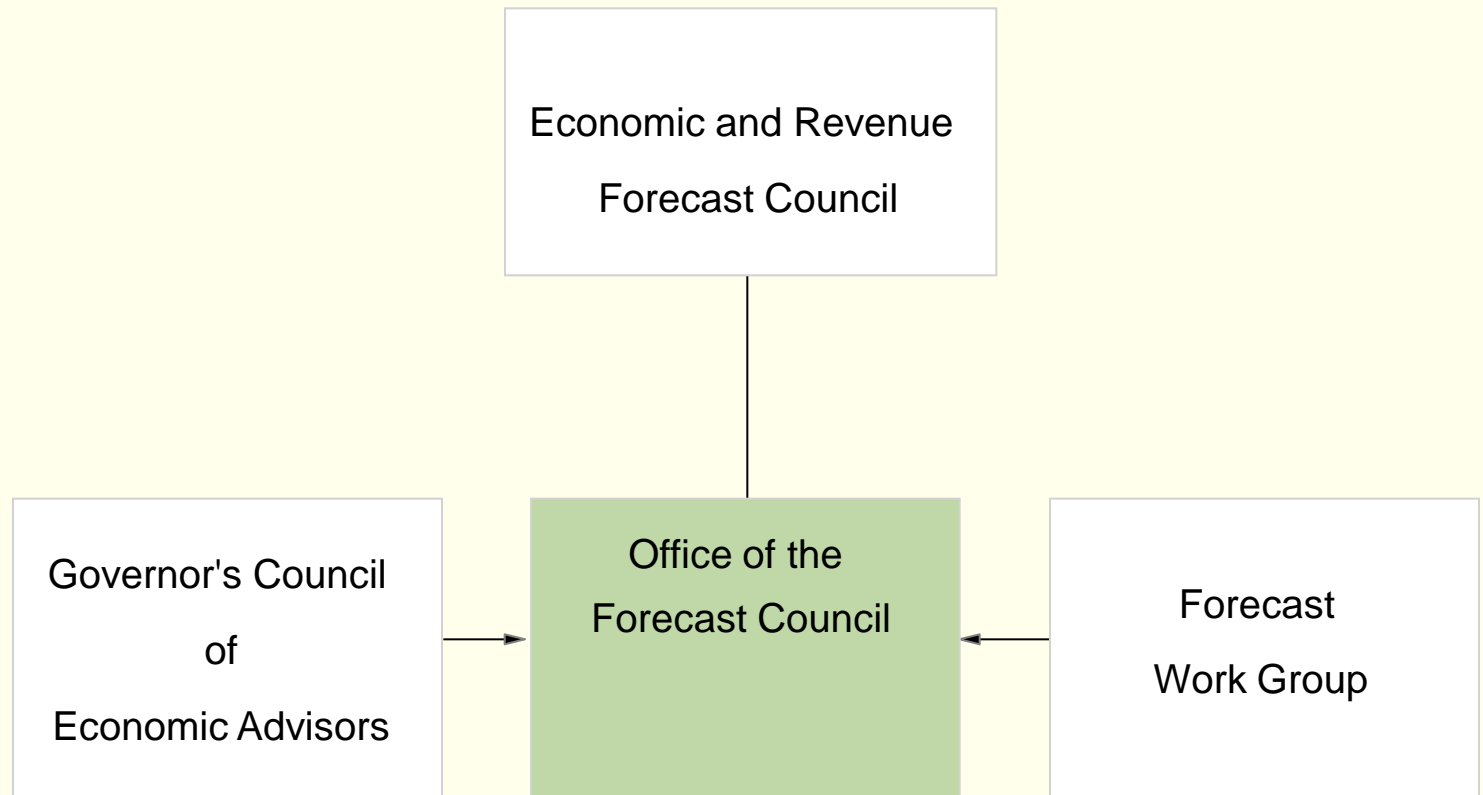
- Oil prices are lower than in the September forecast
- Washington personal income is higher than expected in September due to historical data revisions
- Downside risks to the baseline include the potential for slower Chinese, Japanese and European economic growth, possible disruptions to the housing recovery, and geopolitical unrest
- The Washington economy continues to grow modestly, with employment rising in most sectors
- The state revenue forecast for the current biennium and for the 2015-2017 budget period was increased by 0.5% compared to September



Forecast Oversight

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is based by the Global Insight model



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Economic news continues to suggest risks to forecast

- Upside:
 - Declining initial unemployment claims
 - Net monthly employment gains average almost 250,000 in 2014
 - Lower gasoline prices
 - Lower mortgage rates
- Downside:
 - Slowing Chinese, Japanese, European economies
 - Lackluster housing activity
 - Instability in Middle East, Ukraine/Russia



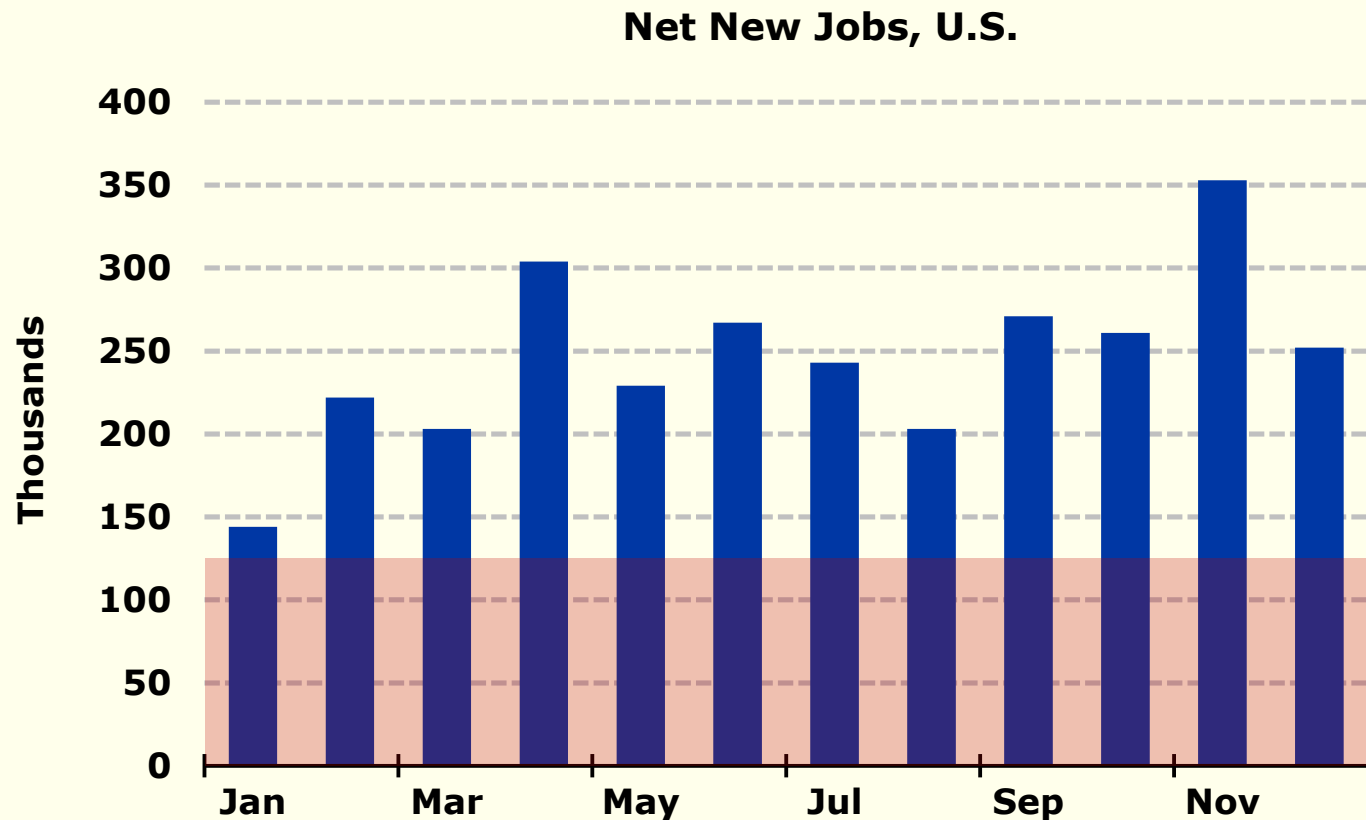
Unemployment claims are at pre-recession levels





Monthly job growth has averaged almost 250,000 net new jobs this year

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through December 2014



Average U.S. wage growth is barely outpacing inflation



Source: U.S. Bureau of Labor Statistics, data through November 2014



Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010:
46%

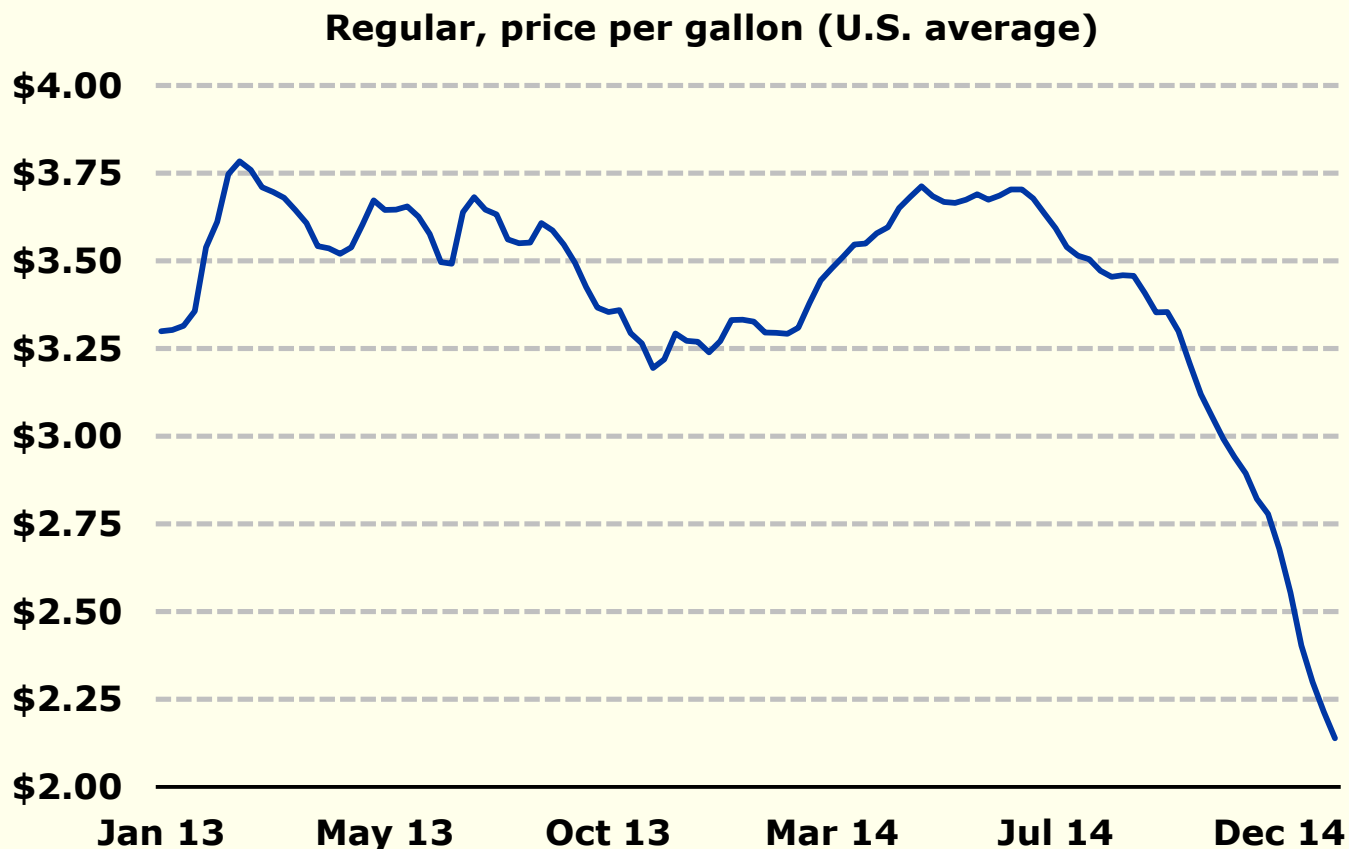
Dec. 2014:
32%



Source: Bureau of Labor Statistics; data through December 2014



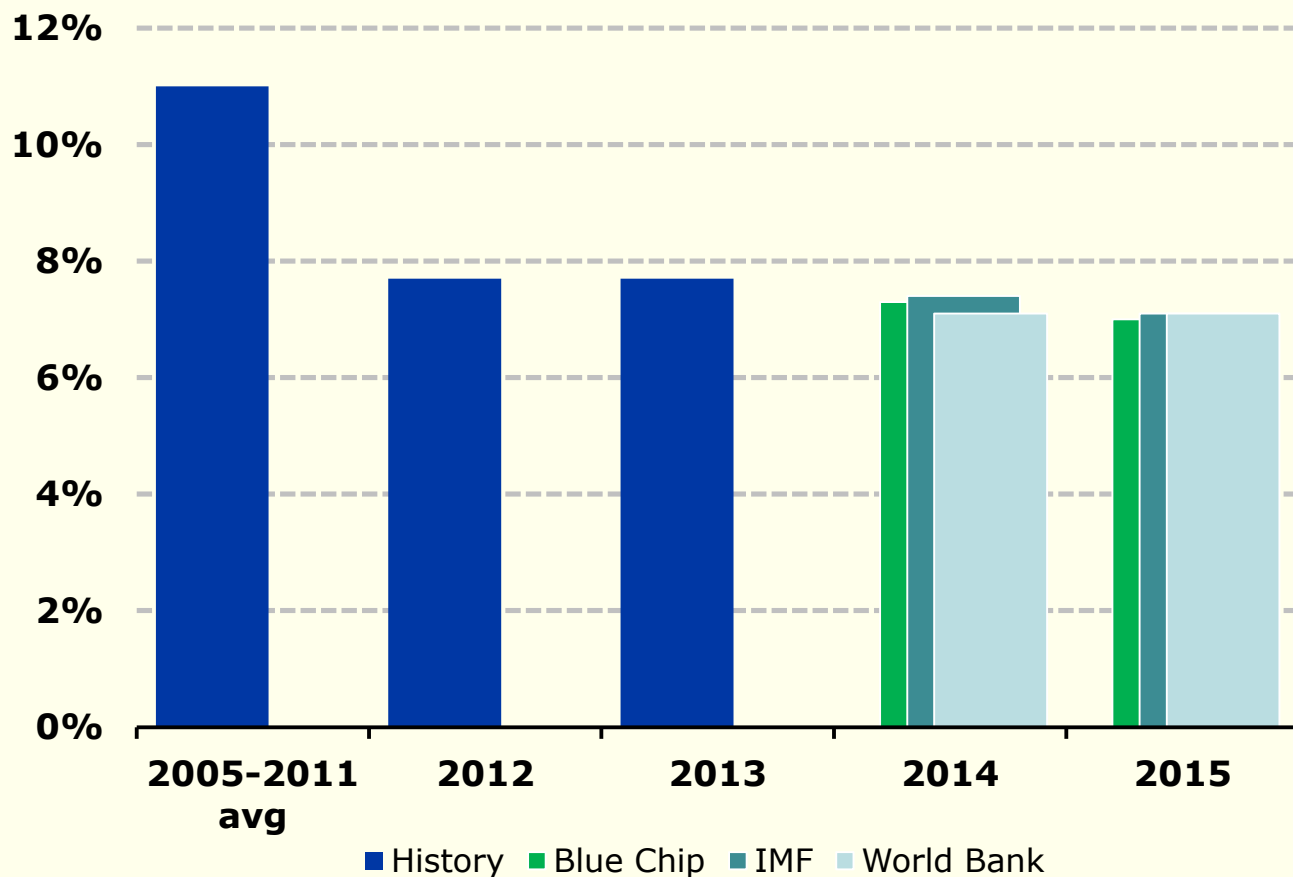
Gasoline prices are falling



Source: Dept. of Energy, weekly data through January 12, 2015

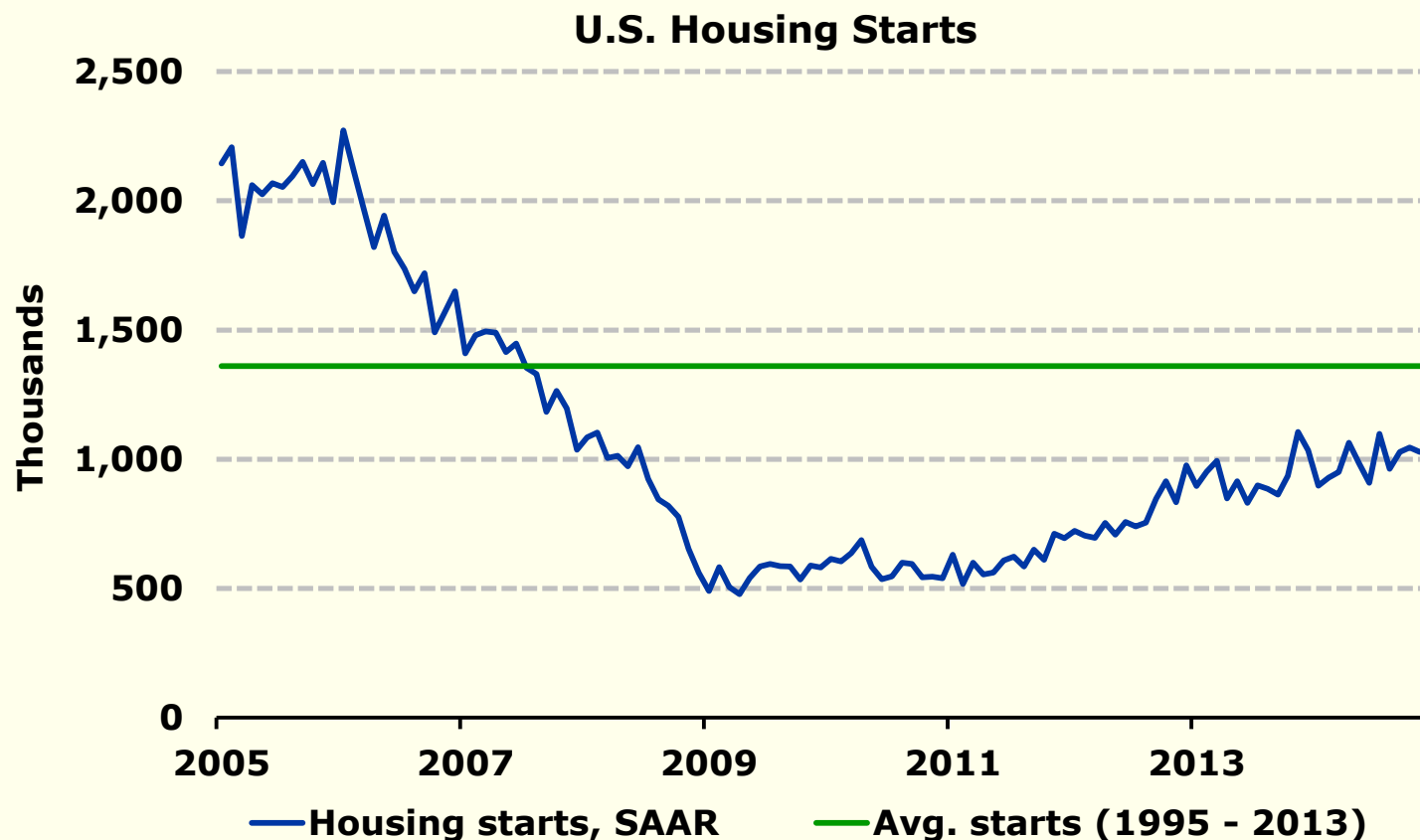


China's 2014 & 2015 GDP growth expected to be below 2013 rate



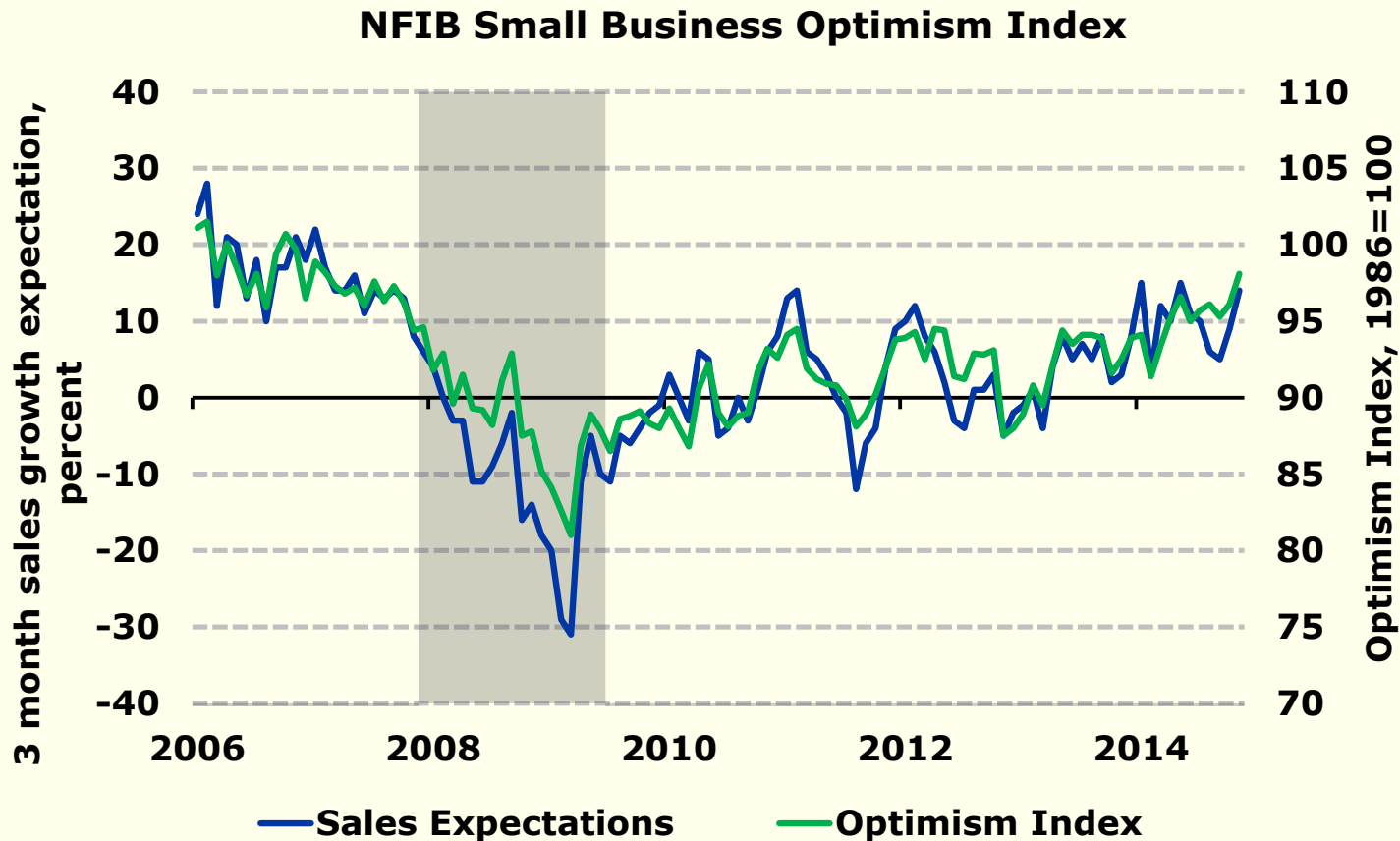


Housing starts are trending up but remain below historic average





Small business optimism and sales expectations getting back to pre-recession levels



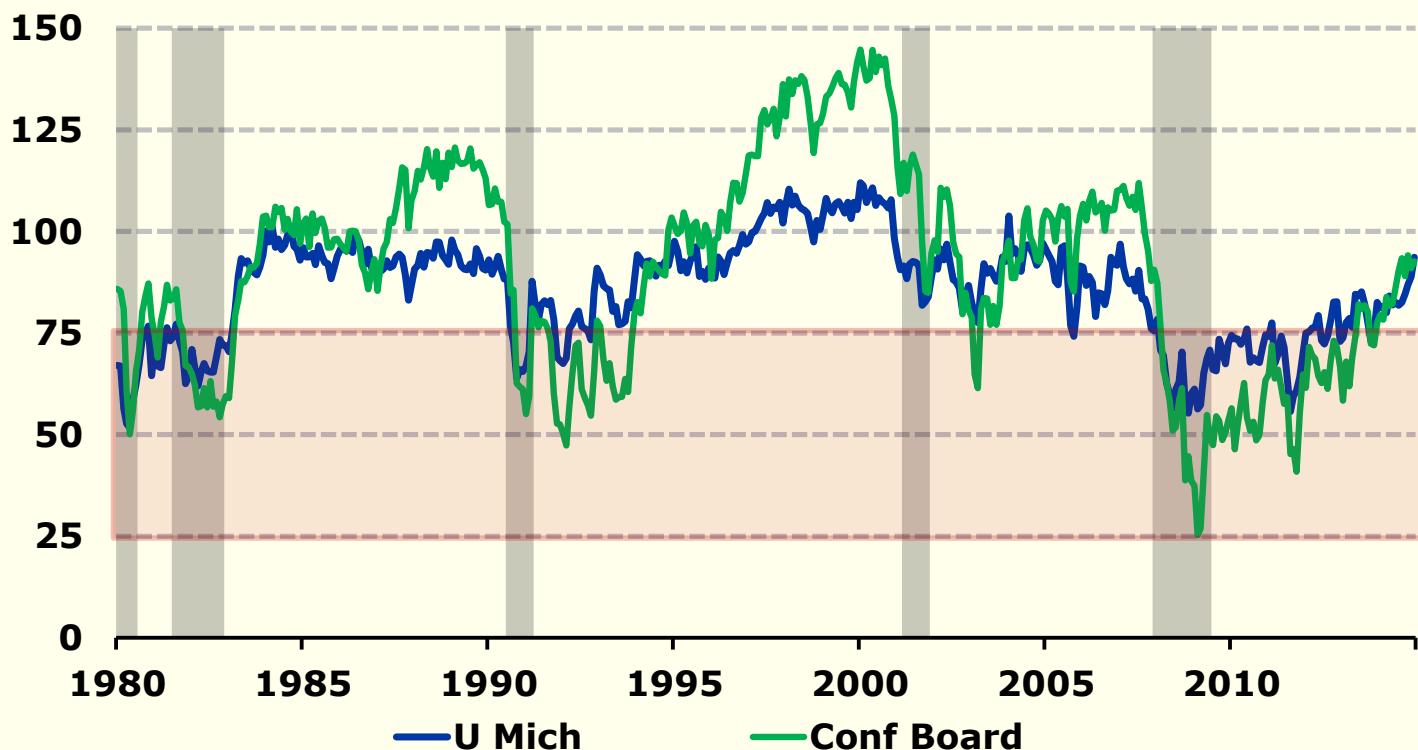


Consumer confidence improving but also getting close to pre-recession levels

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Mich: 1966Q1 = 100, SA

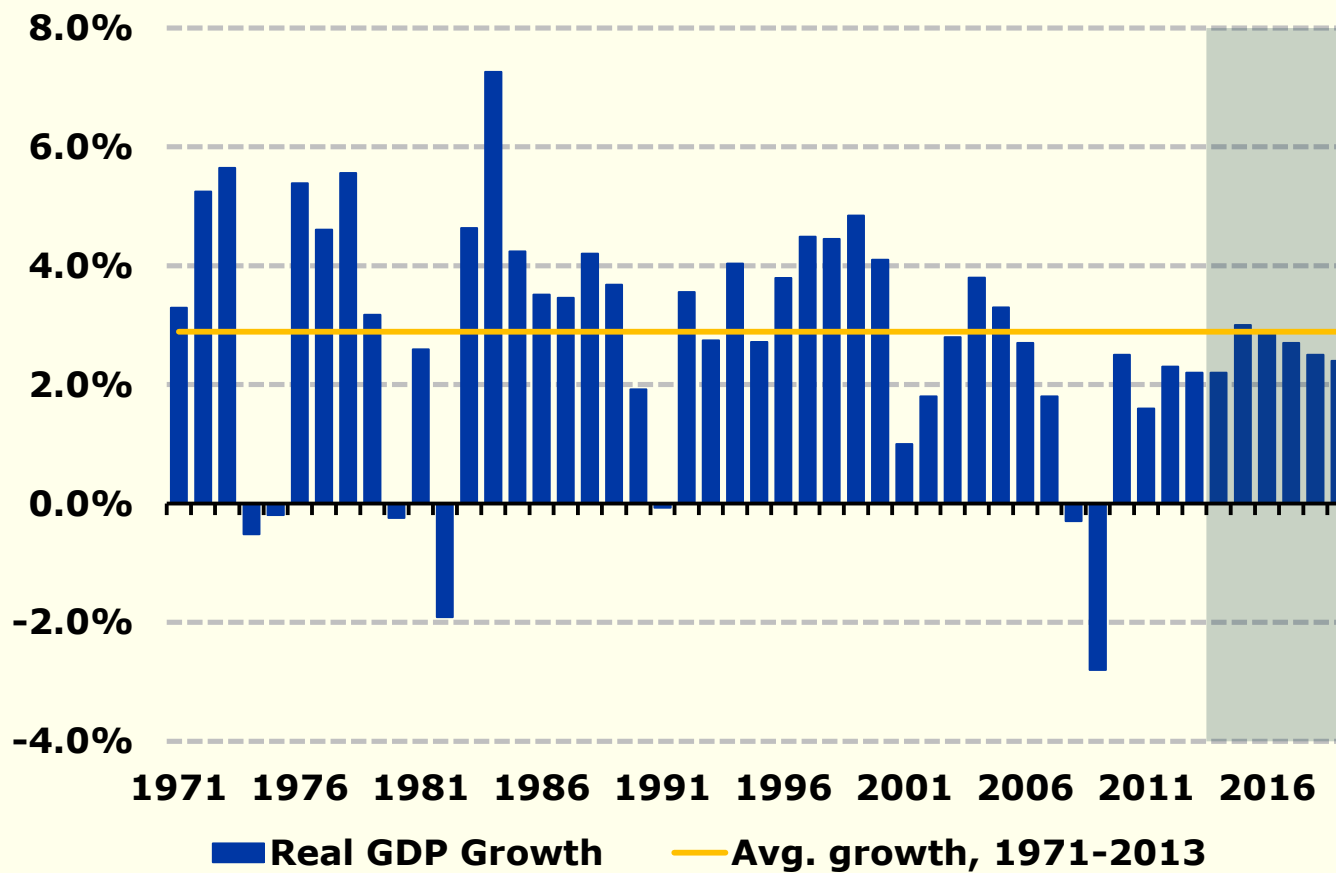
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through December 2014

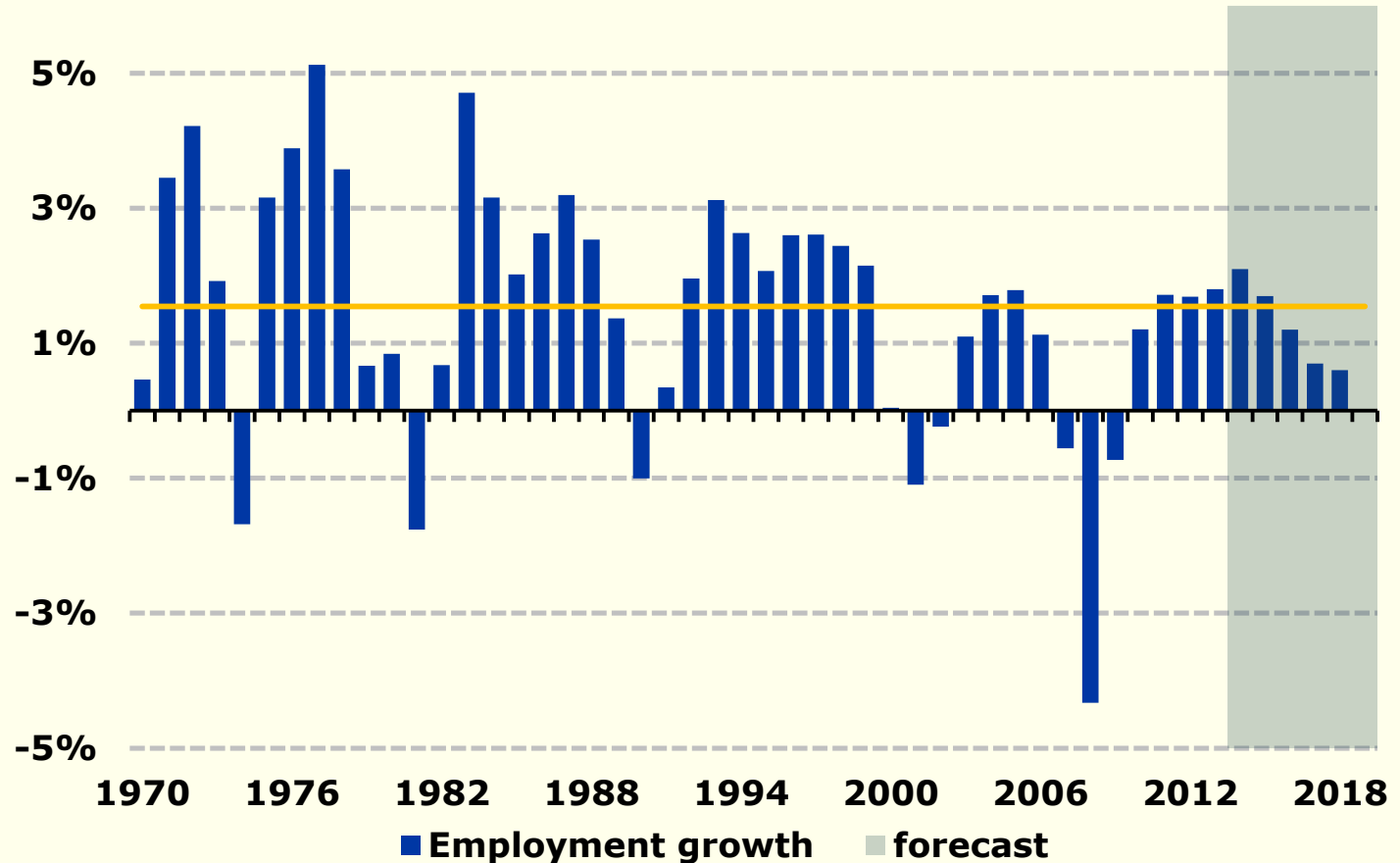


U.S. economic growth has been slower than in past recoveries





Demographics and declining unemployment will slow U.S. employment growth

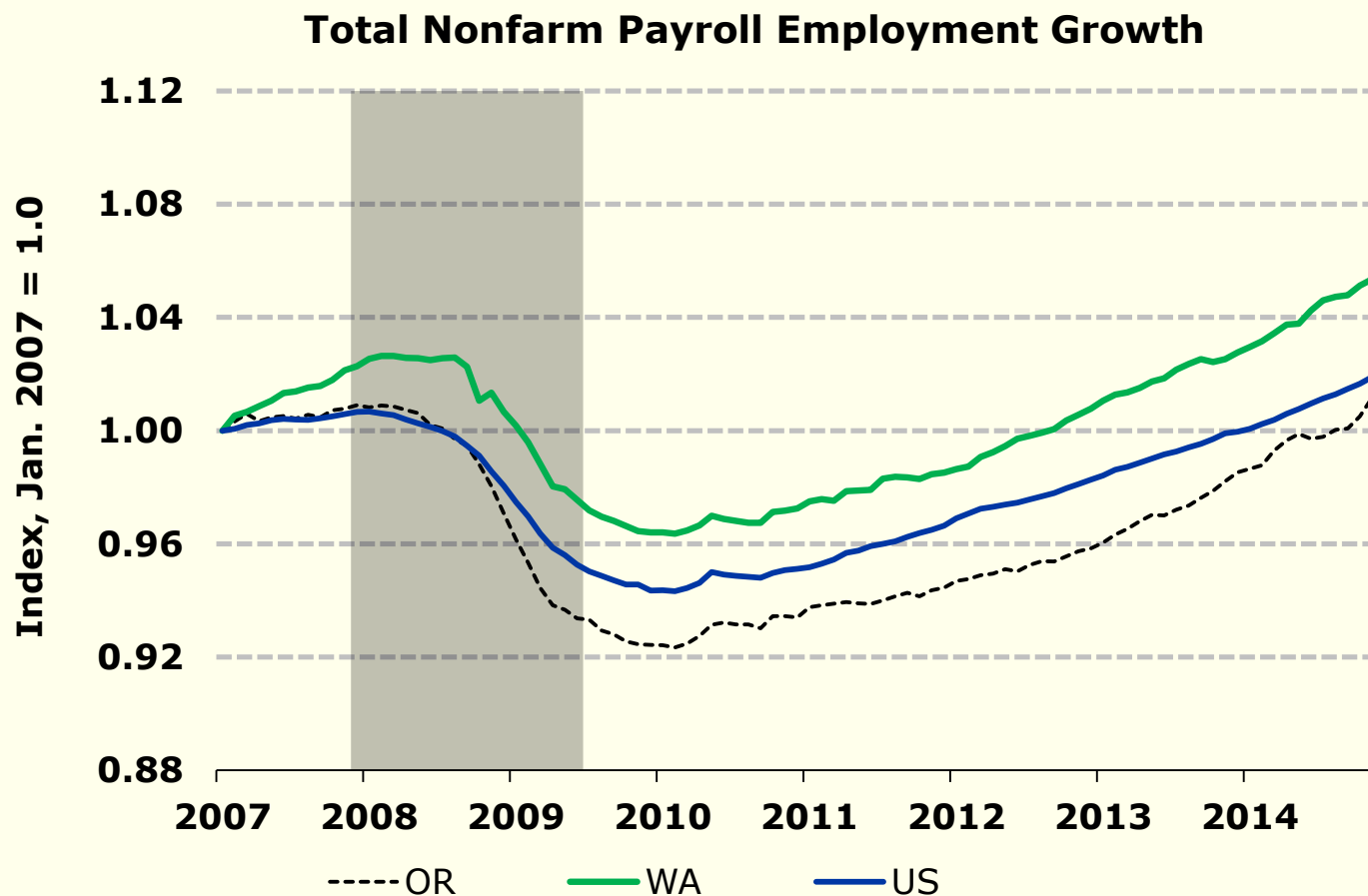


Source: BLS, historical data through 2013; ERFC November forecast 2014-19

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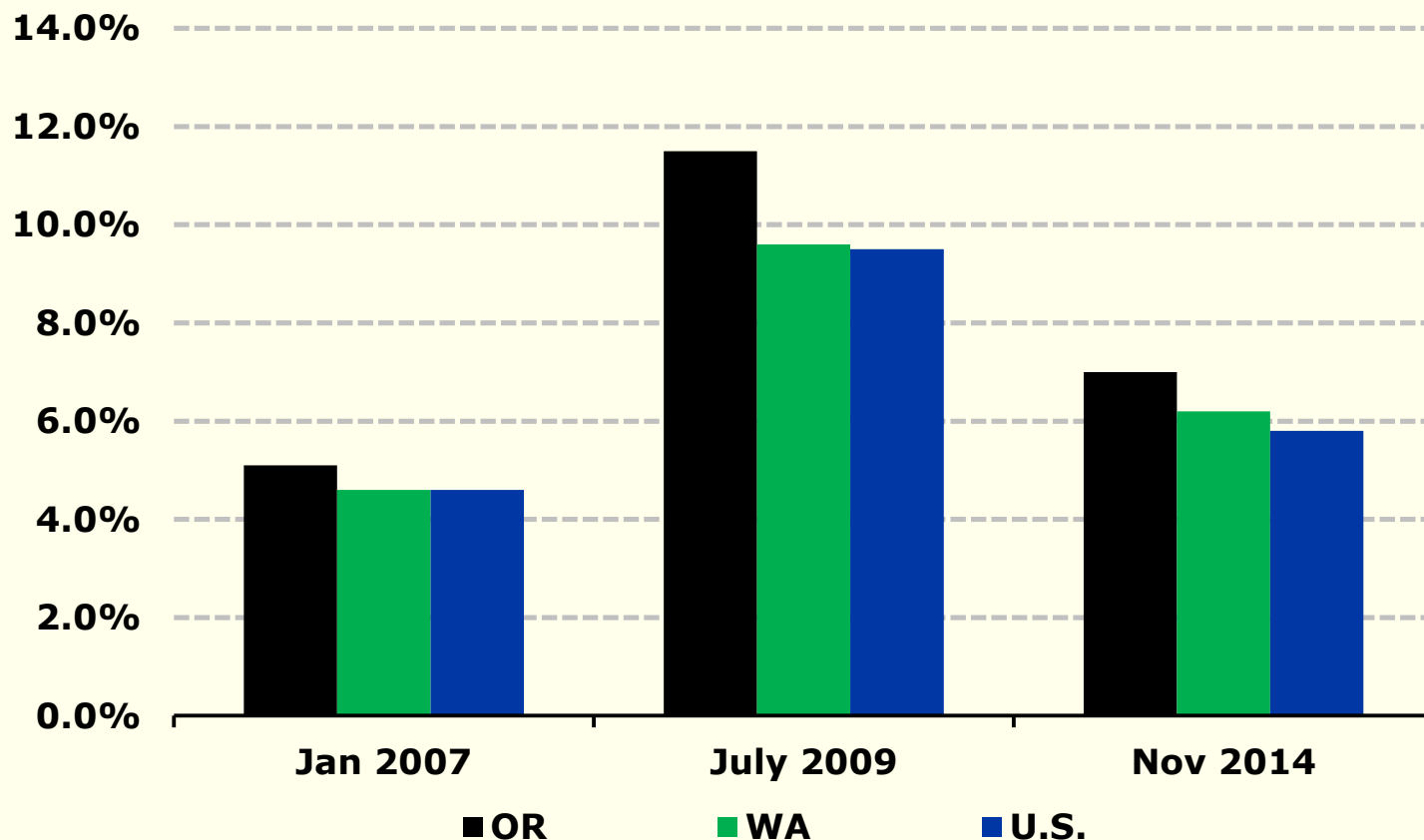
Employment growth since 2007



Source: BLS; data through November 2014



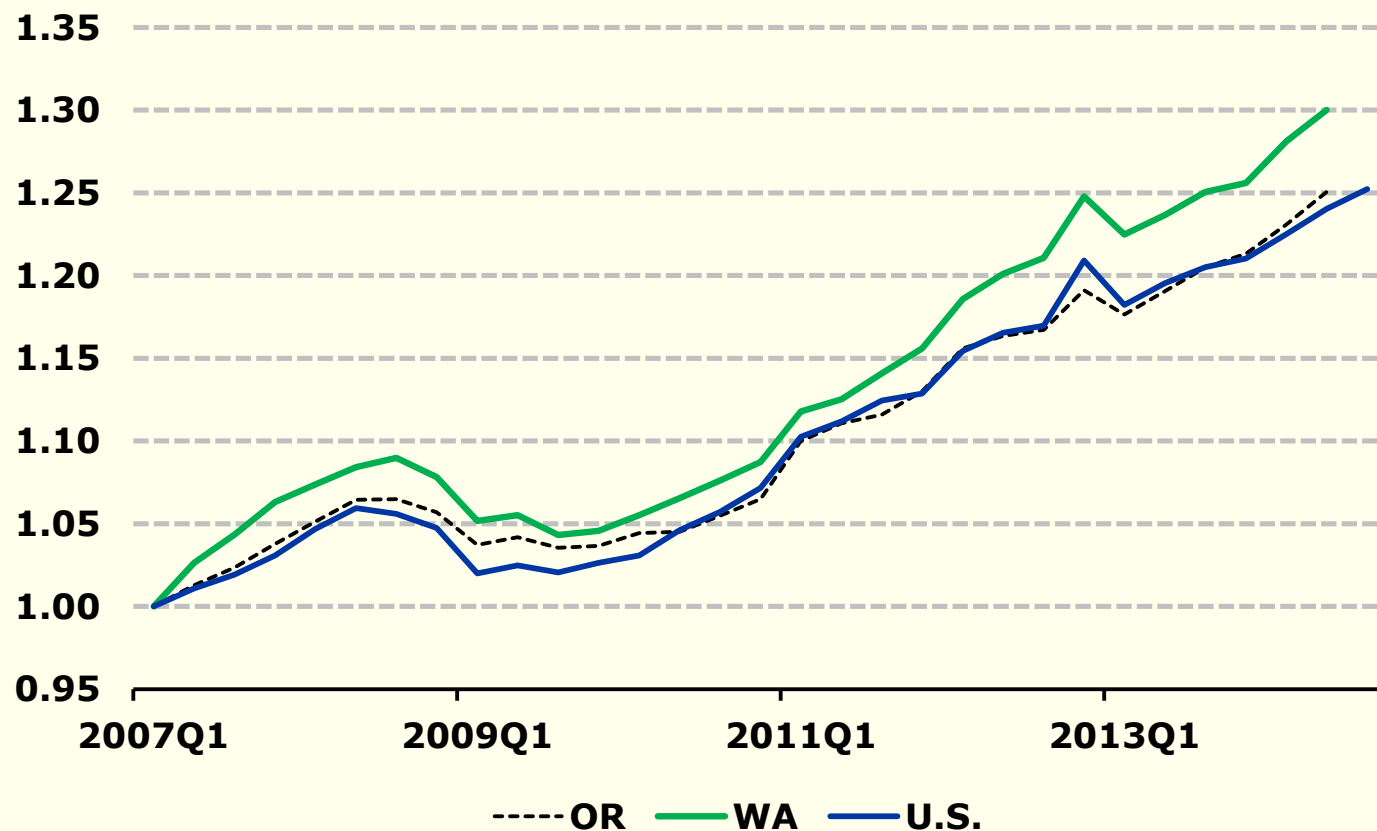
Unemployment rates are down but still above pre-recession levels



Source: BLS; data through November 2014



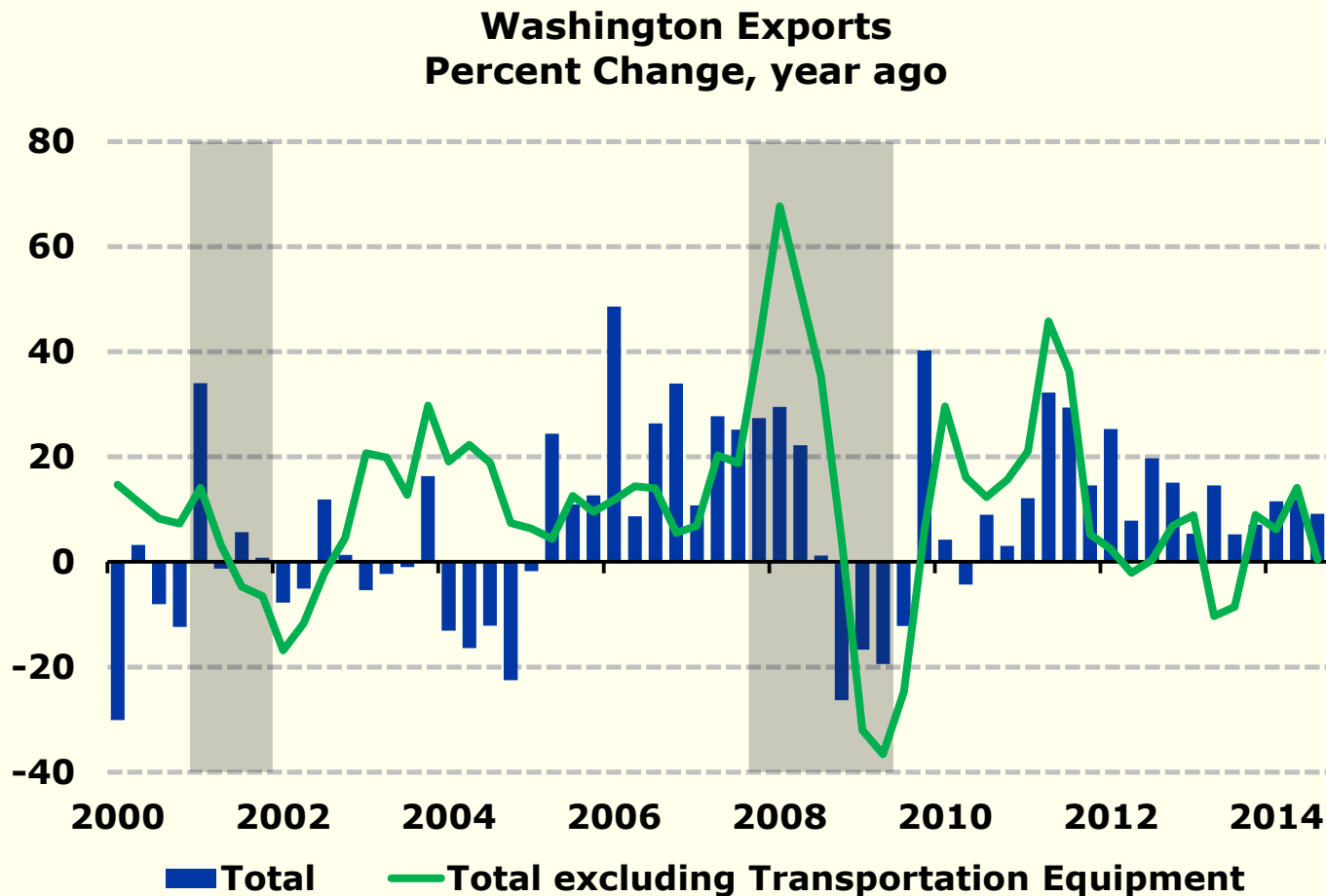
Personal income growth since 2007



Source: BEA; data through 2014 Q3

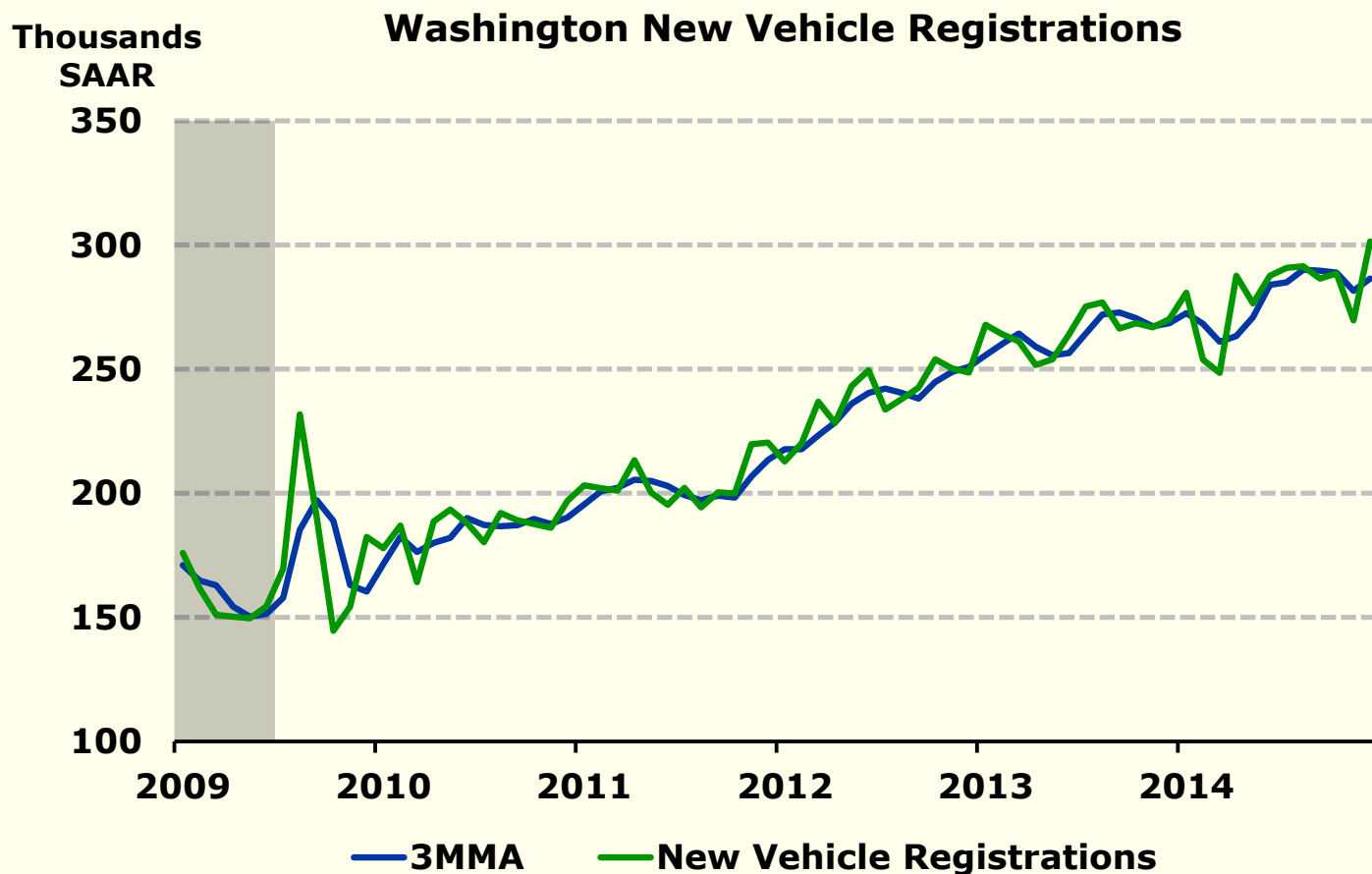


Non-transportation equipment export growth remains weak



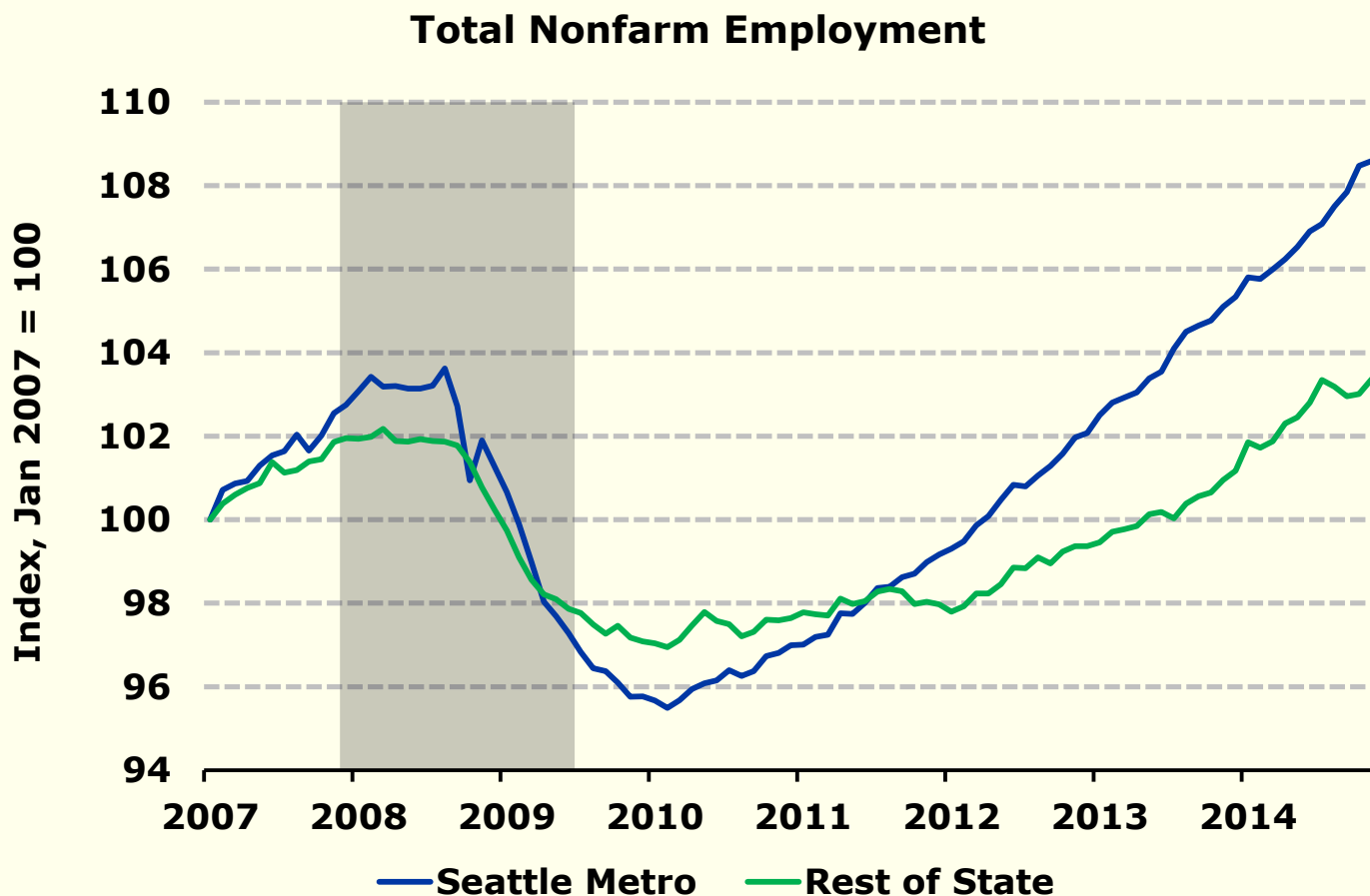


Washington new vehicle registrations hit a post-recession high in December





Seattle area employment is growing much faster than the rest of the state

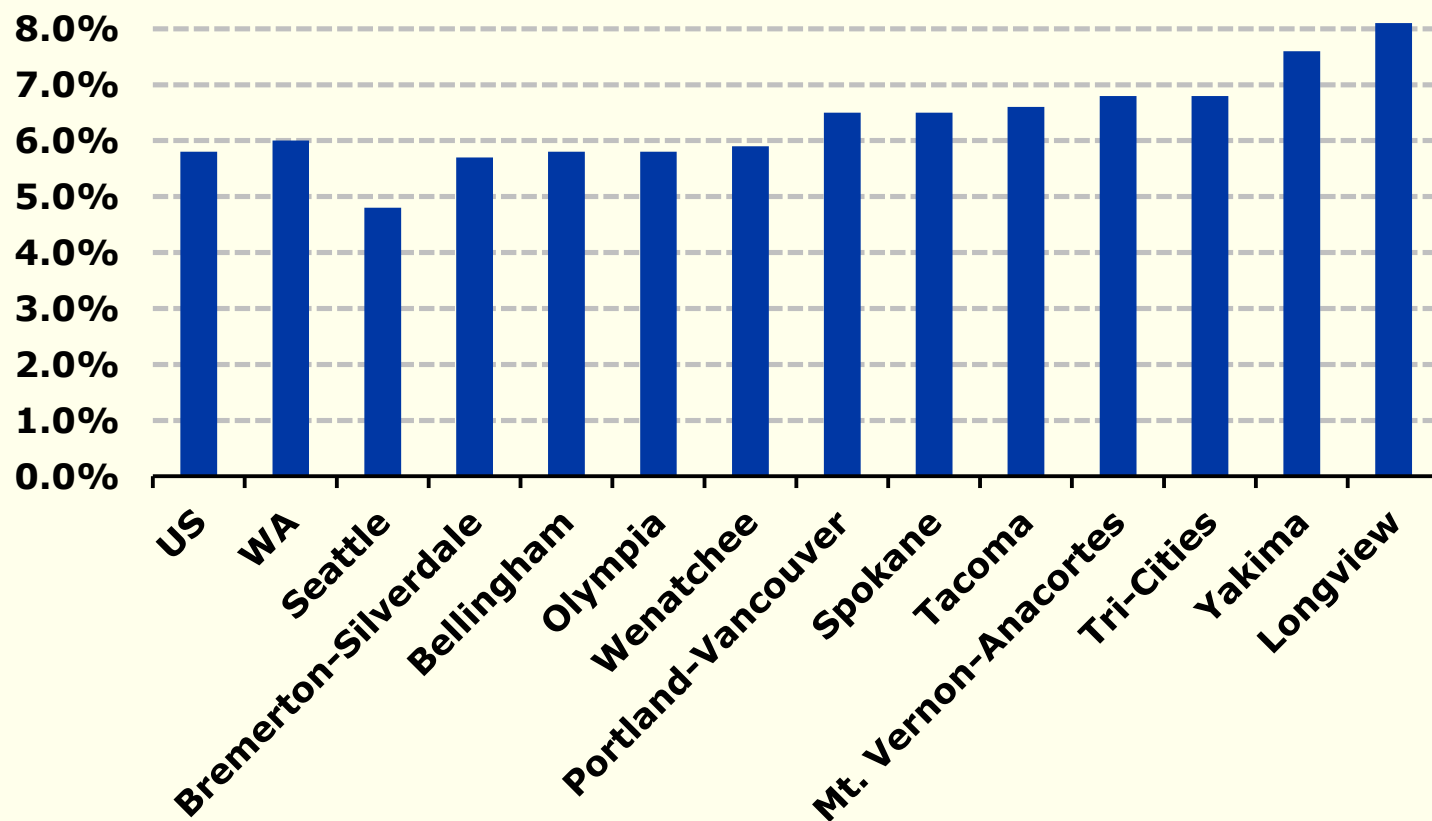


Source: Employment Security Department, ERFC; data through November 2014



Seattle continues to have the lowest unemployment rate among state metropolitan areas

November unemployment rate (SA)

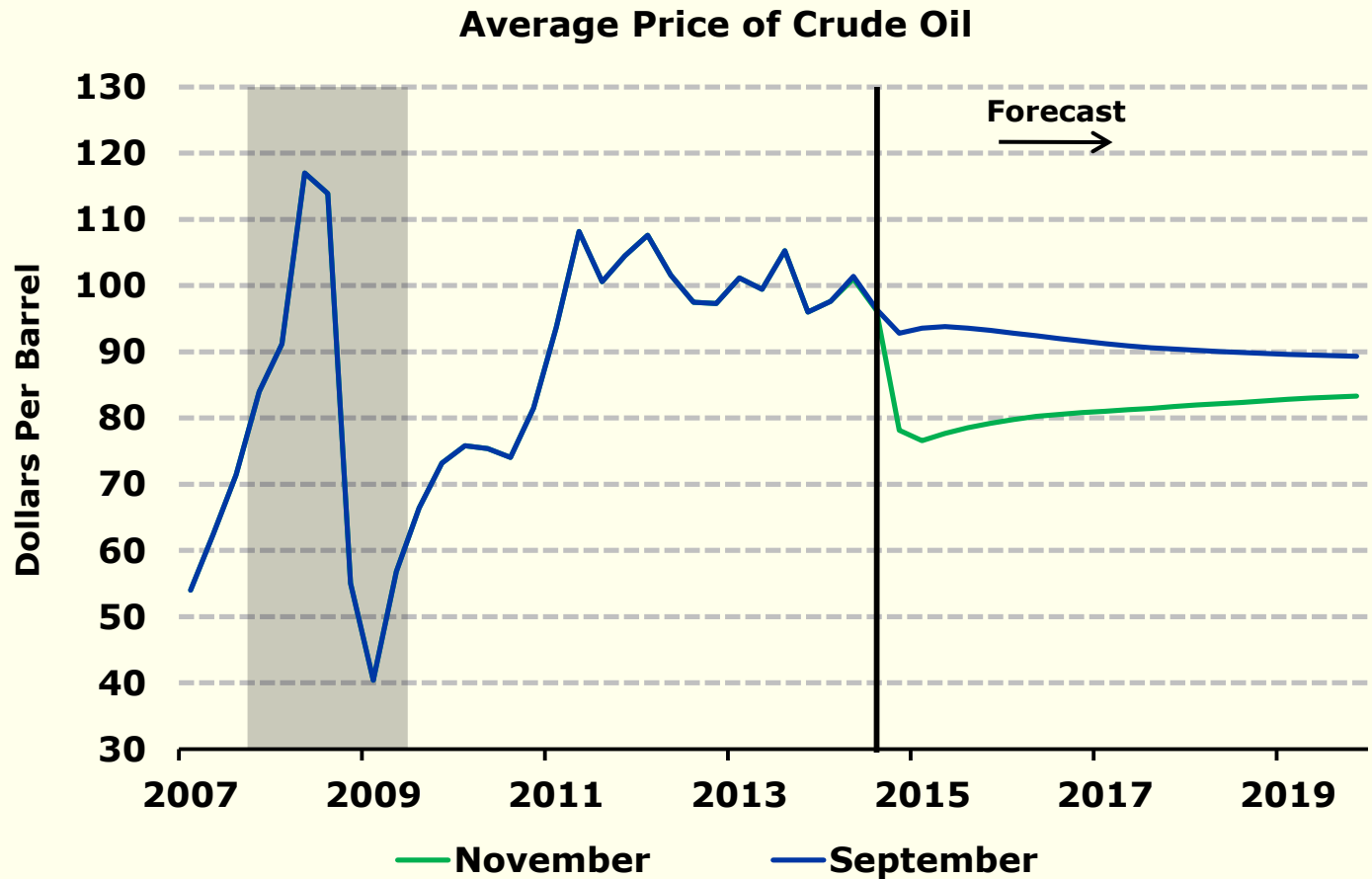


Source: Employment Security Dept., November 2014 data



Oil prices lower in the near term but no longer decline throughout the forecast

Oil prices have fallen even further since our November forecast

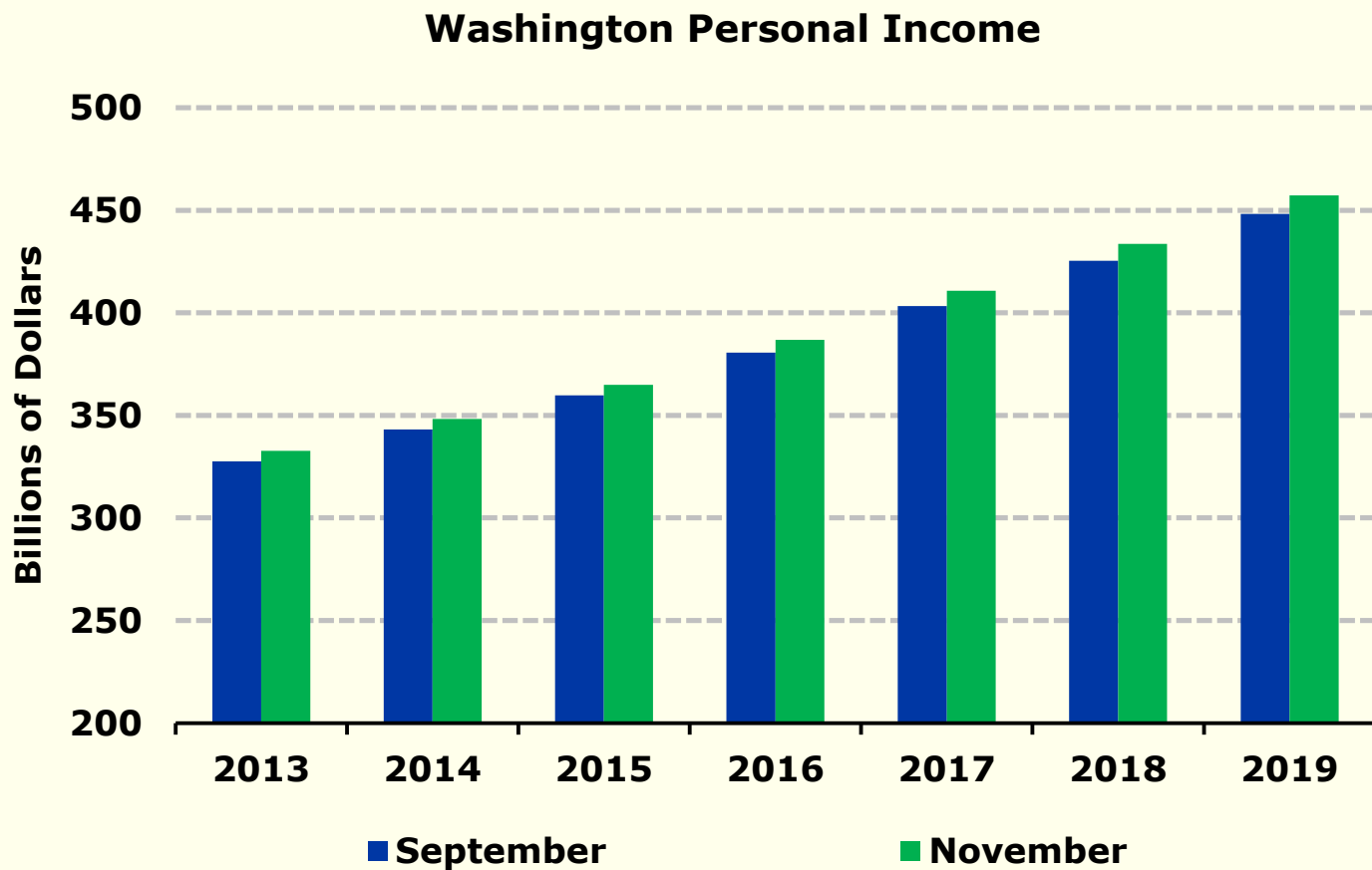


Source: DOE, ERFC November 2014 forecast; historical data through 2014Q3



Washington personal income forecast revised up

In part, the higher forecast reflects upward revisions to historic data



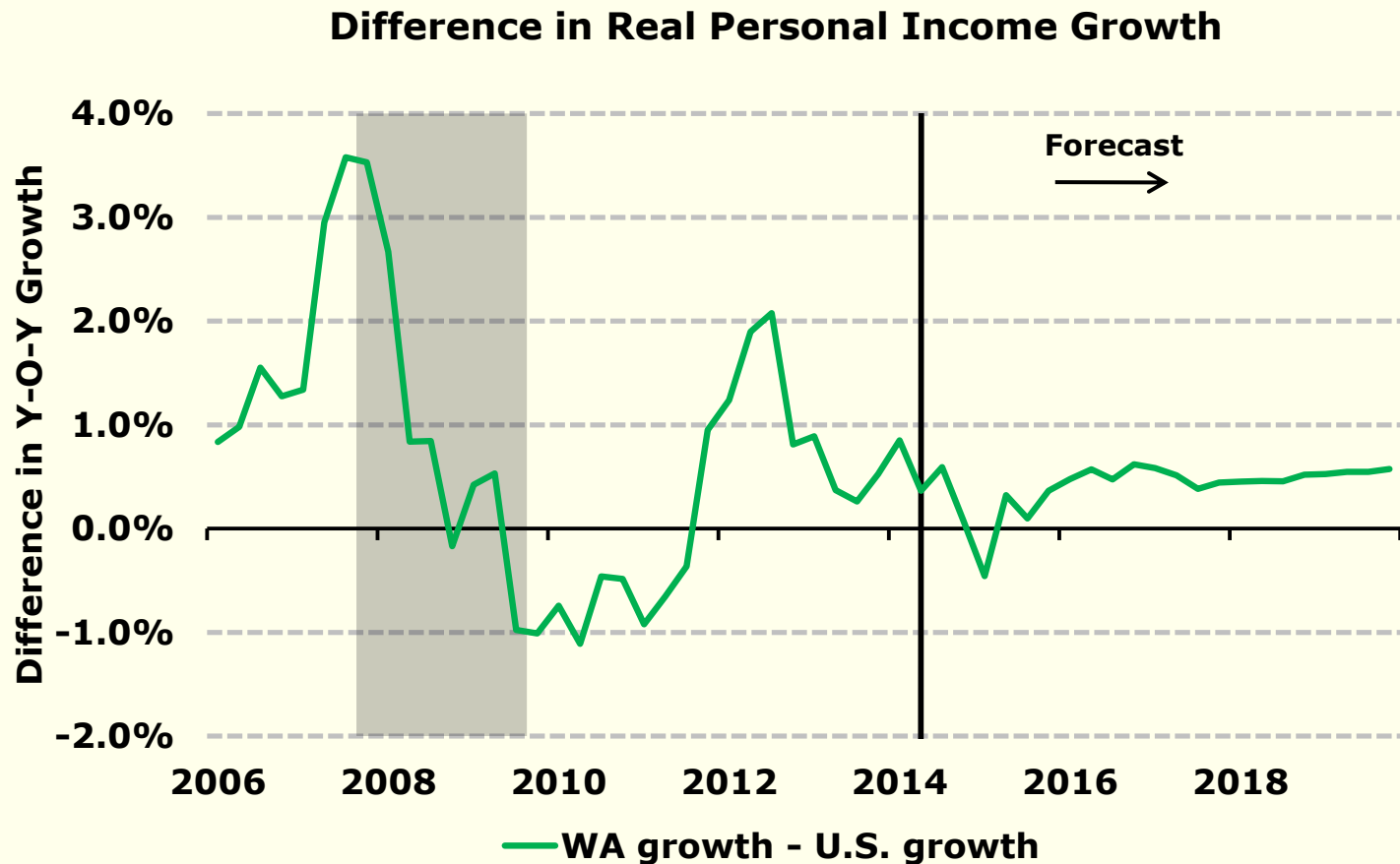
Source: ERFC November 2014 forecast; historical data through 2013

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State personal income will grow slightly faster than the U.S.

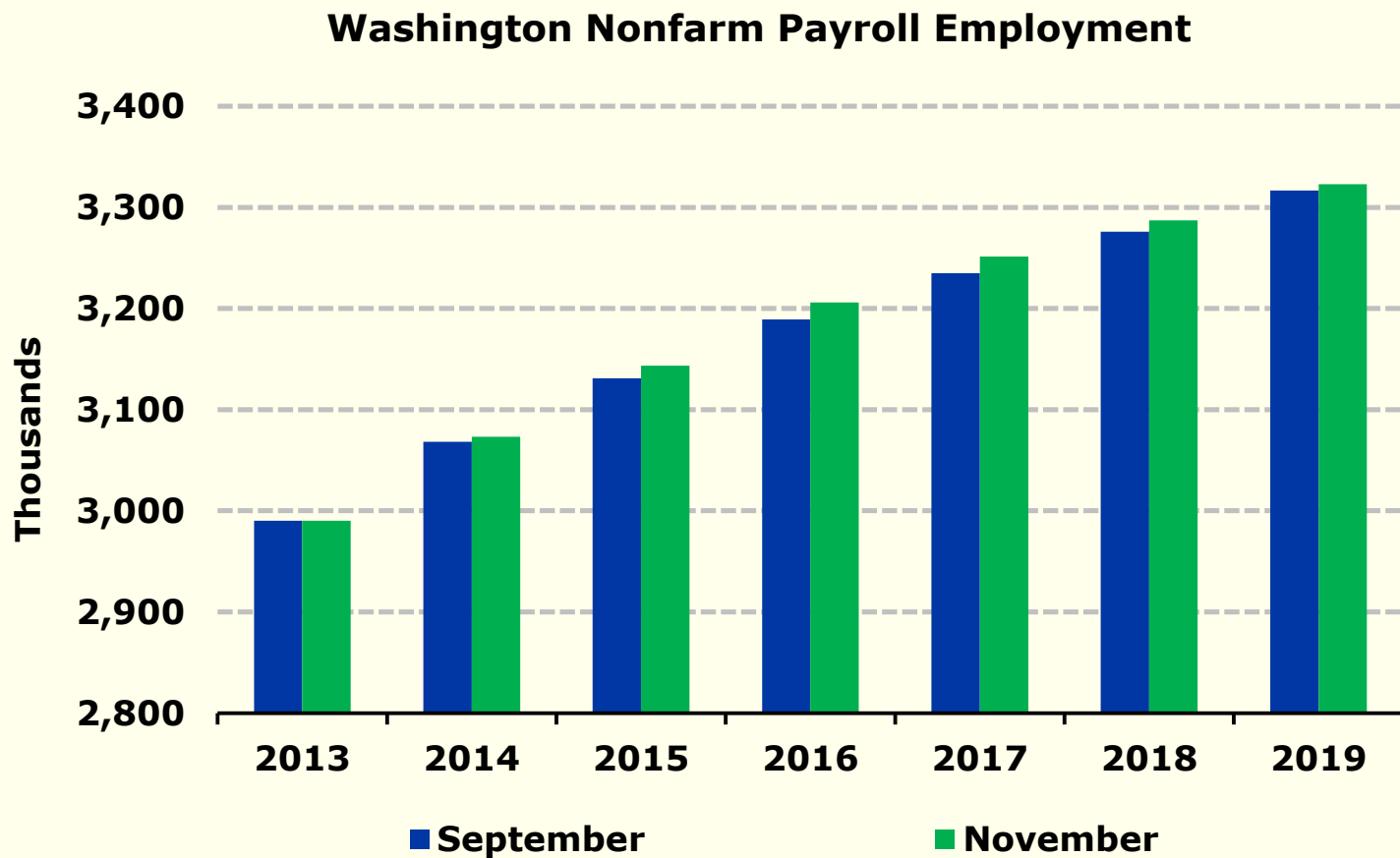
Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



Source: ERFC November 2014 forecast; historical data through 2014Q2



Washington employment forecast revised up

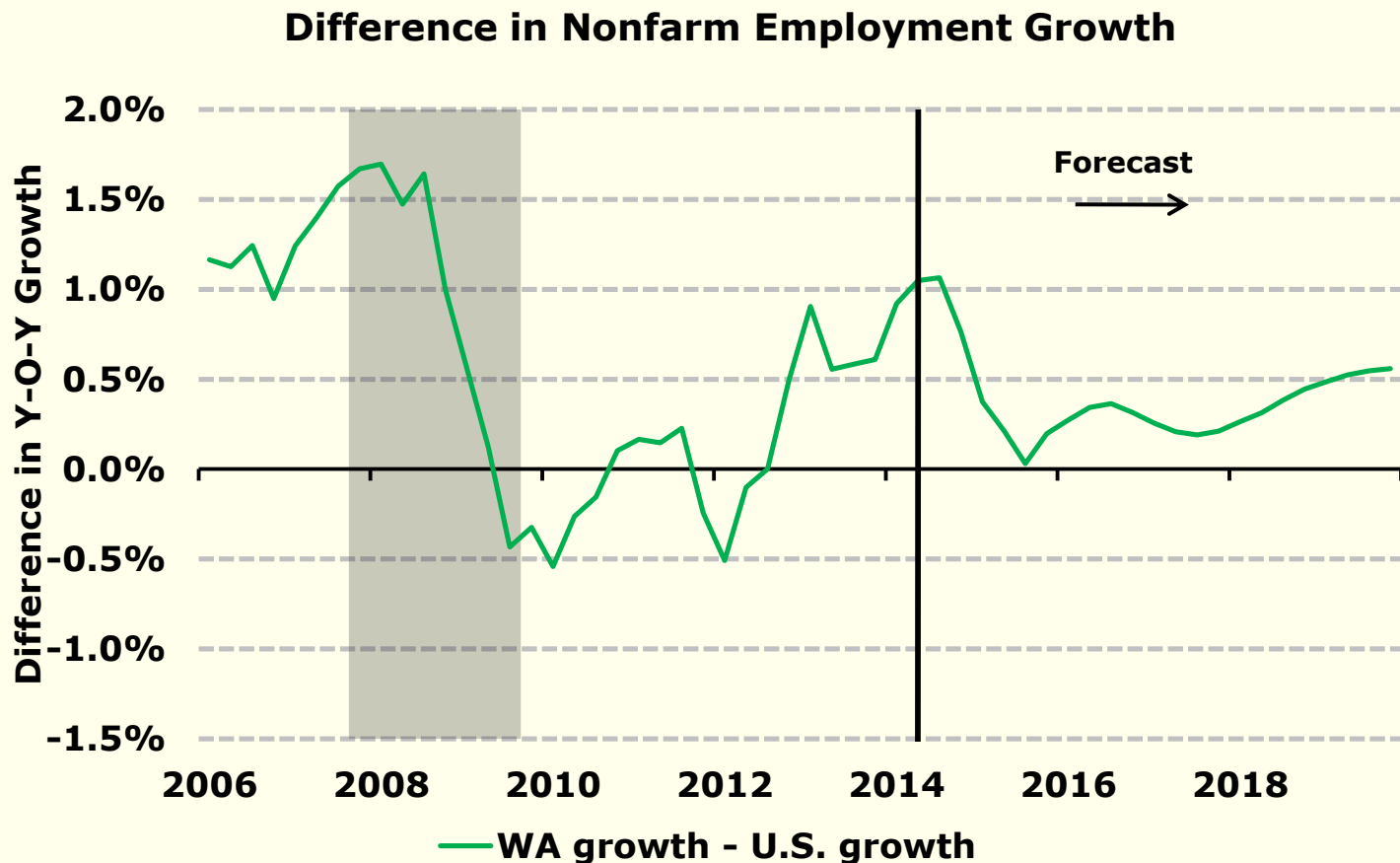


Source: ERFC November 2014 forecast; historical data through 2013

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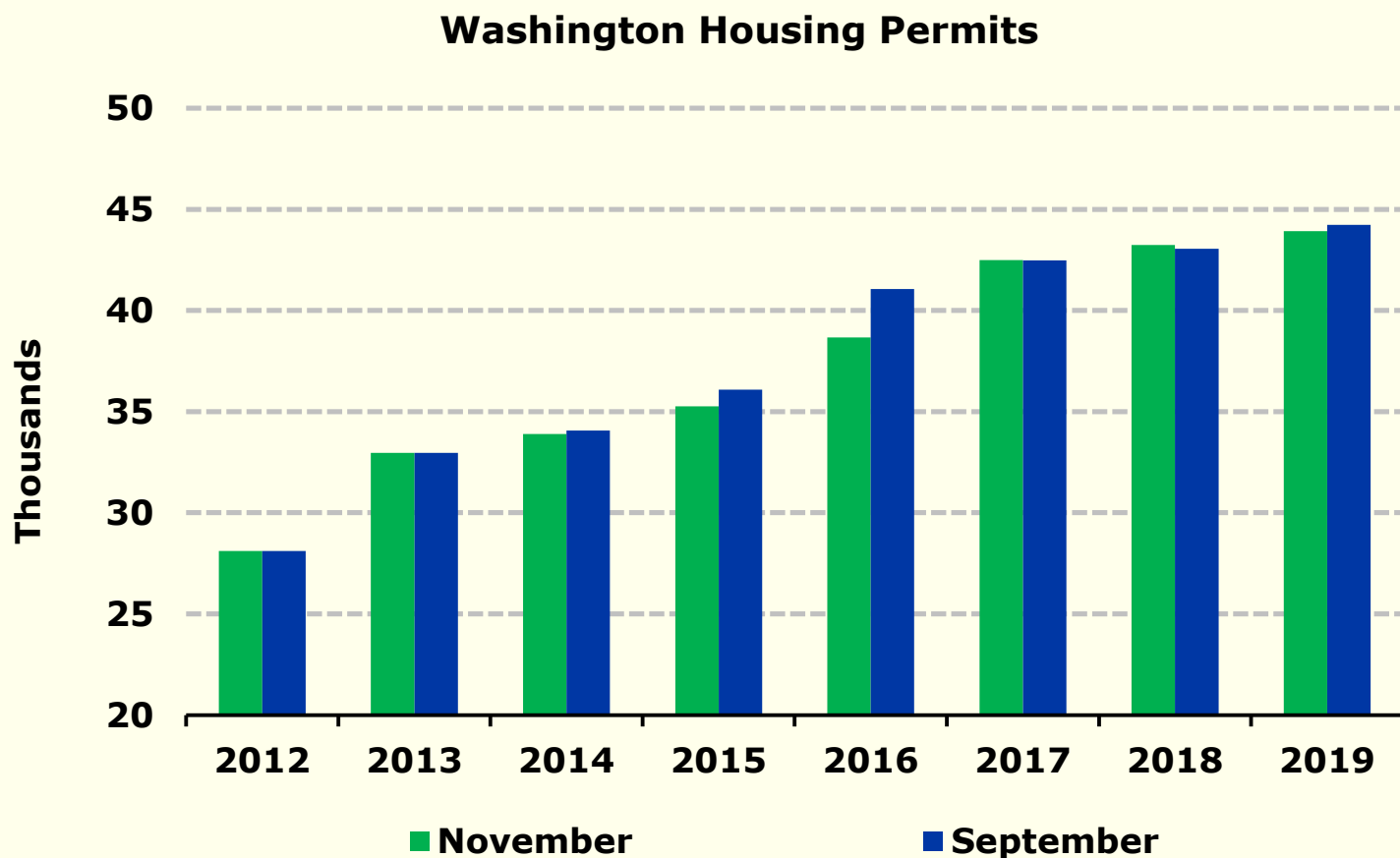


Washington employment will grow slightly faster than the U.S.





Washington housing permits forecast is similar to the September forecast



Source: ERFC November 2014 forecast; historical data through 2013

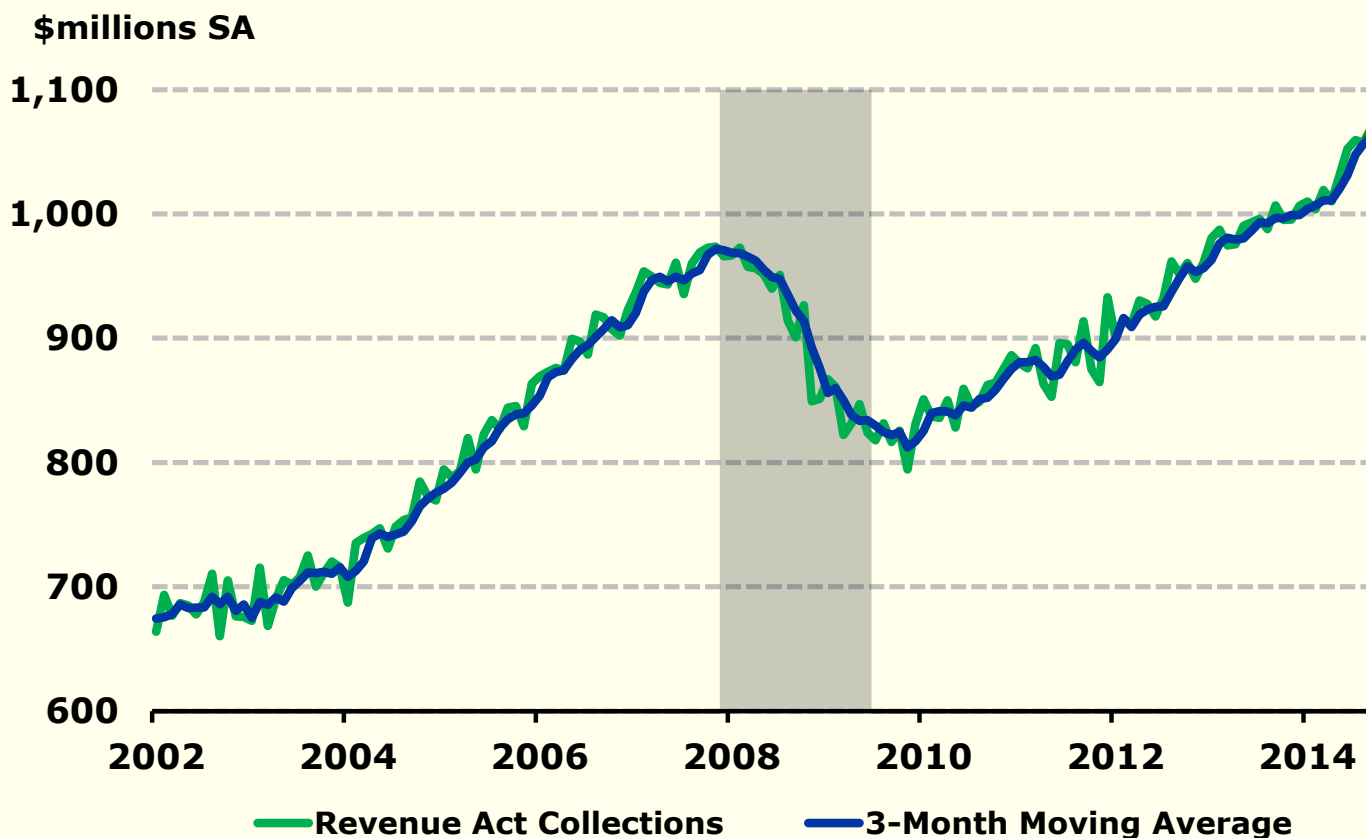
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Revenue Act collections were strong for third quarter activity

Revenue Act collections were up 7.2% year-over-year for 3rd quarter activity.

Revenue Act taxes consist of retail sales, use, B&O, public utility, and tobacco products taxes.

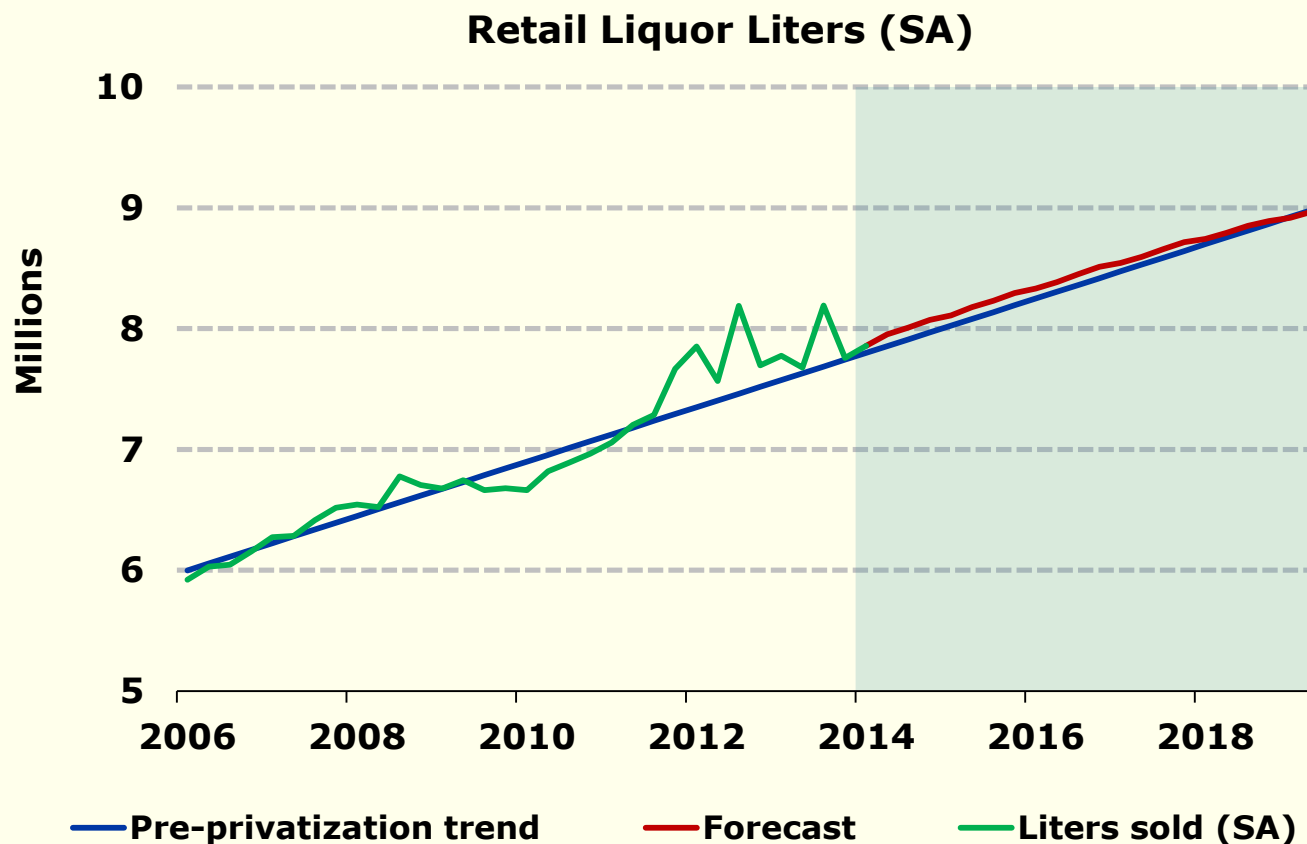


* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through September 2014 activity (collections of Nov. 10)



The surge from liquor privatization is over



Source: DOR, ERFC November 2014 forecast; historical data through 2013 Q3



The number of cannabis establishments continues to grow

65% of Producers are also Processors

Growth in Establishments: (July to November)

Producer 8 to 55

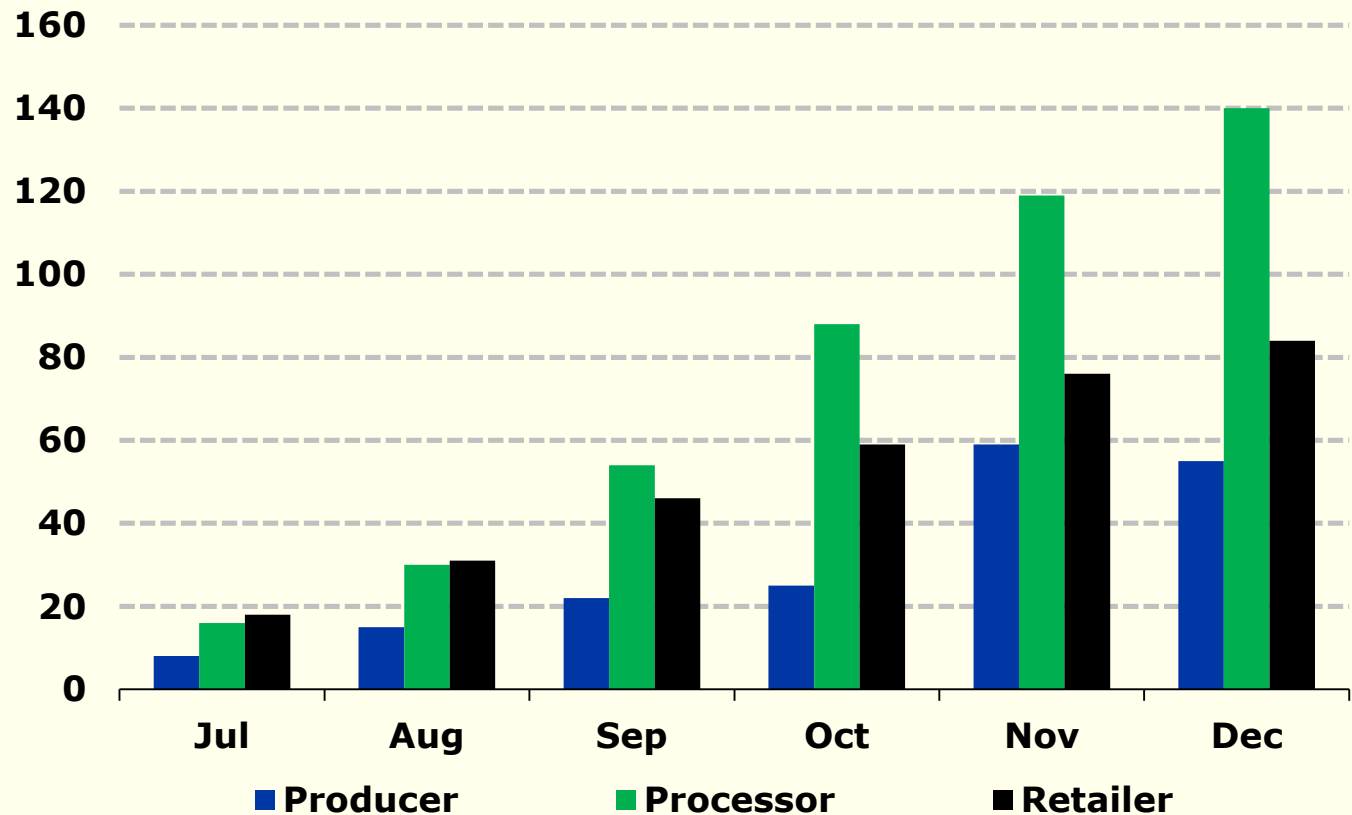
Processor 16 to 140

Retail 18 to 84

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January 22, 2015

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Cannabis Establishments



Source: LCB, ERFC; data through December 2014

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GF-S cannabis revenue estimates

Total GF-S
change from
September
forecast:

•2013-15
+\$4.0 M

•2015-17
+\$8.0 M

•2017-19
+\$2.4 M

\$Millions

November Forecast

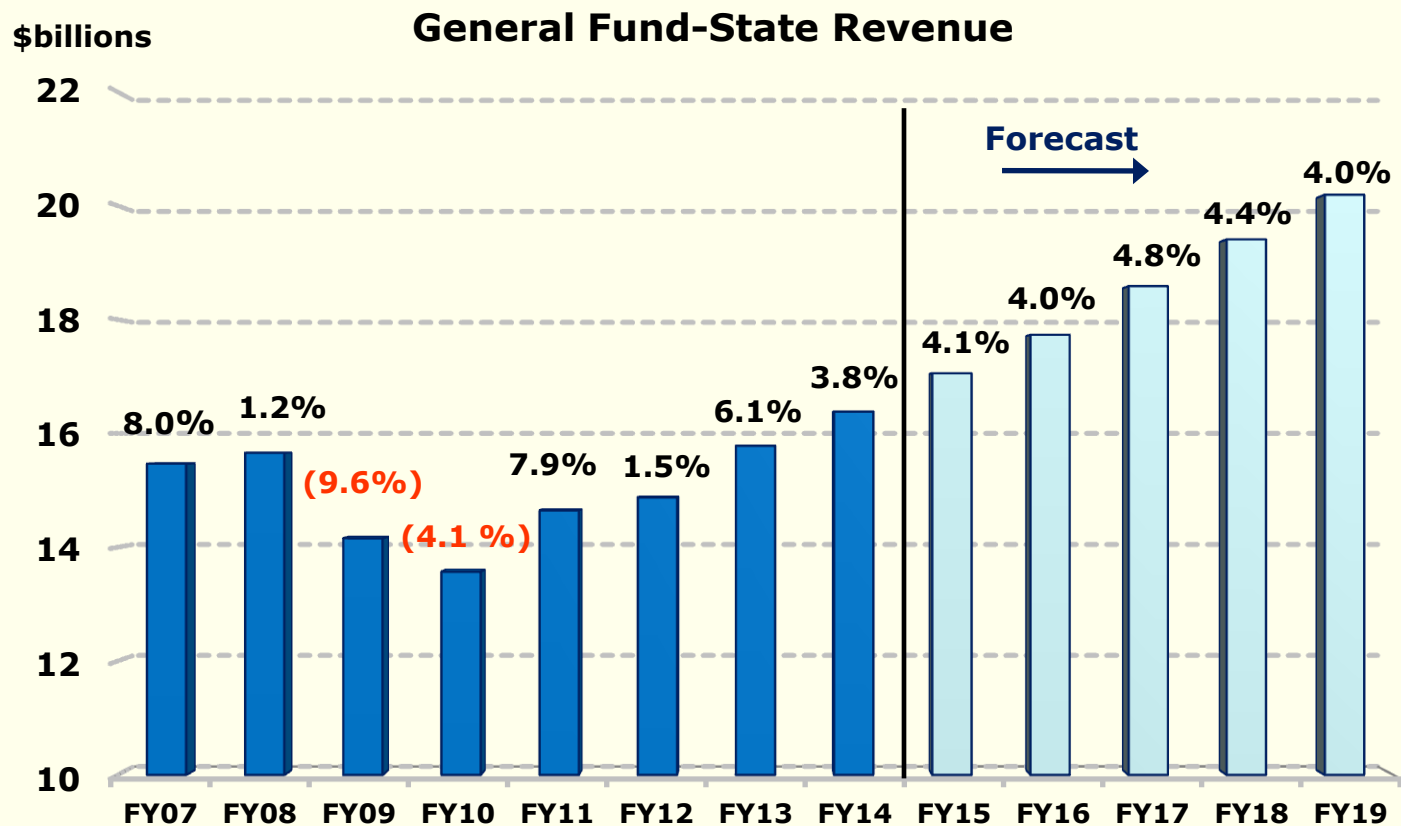
	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$5.7	\$36.1	\$64.9
Retail sales tax and B&O	\$5.2	\$32.0	\$56.6
Total General Fund	\$10.9	\$68.1	\$121.5
Total Non-GF	\$31.8	\$168.4	\$293.5

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



General Fund-State* forecast by fiscal year





Conclusion

- The economic forecast is quite similar to September's forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Washington's economy will continue to be slightly stronger than the nation as a whole
- The level of uncertainty in the baseline remains high, with greater risks on the downside than on the upside



Questions



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